

### 3.7.1. Internal Audit

The Company created a separate structural division, the Internal Audit Service (IAS), in order to improve internal audit in PJSC NCSP.

The main goal of the IAS is to assist the management bodies of the Company and Group businesses to increase management efficiency and improve financial and business performance with a systematic and consistent approach to analysis and assessment of the system of risk management, internal control and corporate governance.

The activities of the service are governed by the Regulation on the Internal Audit Service of PJSC NCSP, approved by the Board of Directors on November 24, 2016 (Minutes No. 08-SD NCSP).

The IAS reports to and is functionally accountable in its activities to the Board of Directors of PJSC NCSP and the Company's Audit Committee. Administratively, the service is subordinate to the CEO of PJSC NCSP.

The IAS works with all divisions of the Group to accomplish its objectives.

In accordance with the approved plan, the IAS conducted three audits in 2018:

- Audit of sales processes at NCSP Group
- Audit of the efficiency of cargo handling processes (general, container and bulk cargo) at PJSC NCSP
- Audit of the level of development of information systems at NCSP Group

The IAS also conducted an audit of the information technology department of PJSC NCSP.

The IAS prepared reports on all audits conducted, with recommendations to address identified violations, and brought them to the attention of management and/or the Audit Committee in due course.

Based on the audit reports, PJSC NCSP management drew up and approved a corrective action plan to address the identified concerns.

### 3.7.2. External Audit

Information about auditor

Shareholders voted at the AGM on June 29, 2018 to confirm AO PricewaterhouseCoopers Audit as the external auditor to audit the Company's financial and business activities for 2018.

Full company name:

Joint-stock Company PricewaterhouseCoopers Audit

Abbreviated company name:

AO PwC Audit

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Butyrsky Val 10, Moscow, Russia, 125047

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Information on auditor's membership in self-regulating organizations of auditors

Full name:

Russian Union of Auditors (Association)

Address:

Petrovsky Per. 8/2, Moscow, Russia, 107031

Additional information:

Information on membership in Russian Union of Auditors (Association) from October 20, 2016 under number (ORNZ) 11603050547.

Type of PJSC NCSP financial statements that were (will be) subject to independent review by the auditor:

The Company's auditor, AO PricewaterhouseCoopers Audit, under a contract (No. 1775/18) dated July 13, 2018, conducted a review engagement of the interim statement of financial position as of June 30, 2018 and corresponding interim statements of comprehensive income, changes in capital and cash flow, as well as disclosures of the of the main principles of accounting policies and other clarifications for the six months ended on this date, prepared in accordance with IFRS 34.

Under a contract (No. 1817/18) dated July 17, 2018 for provision of audit services, AO PricewaterhouseCoopers Audit conducted an audit of:

- The consolidated statement of financial position as of December 31, 2018 and the corresponding consolidated statements of comprehensive income, cash flow and changes in capital, as well as a summary of the main principles of accounting policies and other clarifications for the year ended on December 31, 2018, prepared in accordance with IFRS (audit concluded on March 28, 2019)
- The consolidated statement of financial position as of December 31, 2018 and the corresponding consolidated statements of comprehensive income, cash flow and changes in capital, as well as a summary of the main principles of accounting policies and other clarifications for the year ended on December 31, 2018, prepared taking into account the requirements of Federal Law No. 208-FZ, dated July 27, 2010, on Consolidated Financial Reporting (audit concluded on March 28, 2019)
- The balance sheet as of December 31, 2018, statement of financial results for the year ended December 31, 2018, and appendixes to the balance sheet and statement of financial results, prepared according to Russian accounting and reporting standards (audit concluded on March 28, 2019)

### 3.7.3. Risk management

The management of NCSP Group pursues a focused policy to minimize the influence of external factors that could have a negative impact on the business of the Group's companies.

The principles and approaches on which NCSP Group's risk management system is built and operates make it possible to identify risks, assess their significance, respond to them and try to reduce the likelihood of them being realized. The scope of steps taken depends on the particulars of the situation in each specific case.

Internal control and risk management in the Group are integrated into the multilevel system of management and are an essential part of it, so their development is one of the key objectives of corporate governance.

The Company has created a specialized body for the risk management and internal control system, the Internal Control and Risk Management Service (ICRMS, or the Service).

The main functions of the ICRMS are to:

- Analyze and assess contracts for financial and business risks
- Evaluate management accounting
- Conduct scheduled and unscheduled audits in order to identify risks inherent to the Company's financial and business activities
- Develop, update and improve local regulations in the area of internal control and risk management
- Generally coordinate risk management processes
- Analyze the risk portfolio and develop proposals for the response strategy in regard to managing these risks
- Prepare reports on risk management

The Group uses the following methods for managing risks:

- Mitigate risk:

The main and priority option for risk management, it includes a set of preventive measures aimed at keeping the risk at the existing level while actively mitigating it on the part of the Company to reduce the chances of a risk event occurring and/or reducing potential losses to the level of the risk appetite.

- Eliminate source of risk:

Method of risk management that implies partially refraining from a business process or modifying a decision in a given area that holds the greatest risk. However, such modification must be economically sound.

- Share risk:

Whole or partial transfer of the risk to other parties through the instruments of insurance, hedging, financial guarantees and so on. This option is used when, among other things, it is economically ineffective to mitigate the risk and accepting it is not possible due to the intolerably high level of risk.

- Change the consequences:

Set of measures aimed at offsetting the negative consequences arising from a risk event. The costs of changing the consequences should be reasonable and commensurate to the benefits of using this option.

- Accept risk:

Refraining from any mitigation of the risk because it is negligible, in other words within the bounds of the risk appetite, or when the expense of managing the risk is economically unjustified. Acceptance of risk can only occur when other methods of management, other than risk avoidance, are ineffective. As a result of accepting a risk, the Company might make various financial provisions. Acceptance of risk simultaneously means applying a management option such as changing the consequences to the modified part of the risk.

- Avoid risk:

Implies refraining from carrying out certain actions (not beginning, not continuing or not resuming activities) that carry a high risk. The use of this method should be of an exclusive nature and it should be applied only when the overall cost of mitigating the risk is economically unviable or such mitigation and sharing the risk are not possible.